Chairman's Statement

"Ten years after our first investment outside Hong Kong in 2000, these operations have contributed 35% of the Group's overall earnings in 2010."

Fok Kin Ning, Canning
Chairman

Our Global Perspective

The Group has made outstanding progress in implementing its investment strategy of growing its earning base from outside Hong Kong. To identify the company name with the Group's business development, the name of the company was changed to "Power Assets Holdings Limited" from "Hongkong Electric Holdings Limited" with effect from 16 February 2011. The new company name reflects the increasingly diverse worldwide interests of the Group, and its pursuit of investment opportunities in power and utility related businesses outside Hong Kong. In 2010 we took a defining step in implementing this strategy when we acquired a 40% stake in UK Power Networks (UKPN).

We have seen a substantial increase in earnings generated from operations outside Hong Kong. Ten years after our first investment outside Hong Kong in 2000, these operations have contributed 35% of the Group's overall earnings in 2010. While our focus is now global we will continue through our subsidiary The Hongkong Electric Company, Limited, a company which for more than a century has been committed to providing Hong Kong with a world-class electricity supply, to maintain the high level of reliability while working towards a low carbon future for Hong Kong.

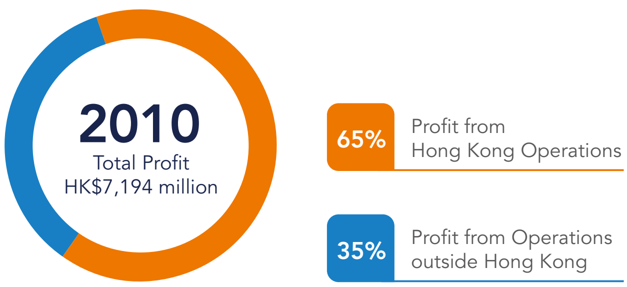
Results

The Group's audited profit for the year ended 31 December 2010 was HK$7,194 million (2009: HK$6,697 million), an increase of 7%. Earnings from the Group's Hong Kong operations were HK$4,659 million (2009: HK$4,646 million), including earnings from The Hongkong Electric Company, Limited of HK$4,620 million (2009: HK$4,613 million). Earnings from the Group's operations outside Hong Kong were HK$2,535 million (2009: HK$2,051 million). The 24% growth in earnings from operations outside Hong Kong was mainly attributable to the acquisition of the interests in Seabank Power Limited (SPL) and UKPN in June and October 2010 respectively, and to the overall higher contribution from the Group's existing investments outside Hong Kong.

Dividends

The Directors will recommend a final dividend of HK$1.49 per share, payable on 19 May 2011 to those persons registered as shareholders on 18 May 2011. This, together with the interim dividend of HK$0.62 per share, will add up to a total dividend of HK$2.11 per share for the year (2009: HK$2.11 per share).

Profit Attributable to Equity Shareholders



Chairman's Statement

Hong Kong Operations

At HK Electric, we continued to invest in our generation facilities to enhance reliability and environmental performance in 2010. Equally significant were the improvements and expansion to our transmission and distribution system. Overall capital expenditure in 2010 was HK$2,431 million.

At the outset of 2010, we aimed to reduce our dependence on coal and increase our use of natural gas. We are indeed pleased to have achieved these targets. Overall, units sent out from our gas-fired generating units increased from 20% to 33% of our total electricity supply. The important step toward natural gas enabled us to reduce about 13% of our carbon dioxide emissions as compared with levels in 2005.

The emission reduction programme at the Lamma Power Station started in 2006 was successfully completed with the installation of flue gas desulphurisation (FGD) plant for the coal-fired Units 2, 4 and 5 and low nitrogen oxide burners for Units 4 and 5. The overall result was a substantial reduction in the emission of sulphur dioxide, nitrogen oxides, and respirable suspended particulates.

In July, we took another clear step towards the use of renewable energy when the 550kW thin film photovoltaic system, the largest solar power system in Hong Kong, was commissioned at the Lamma Power Station. In the first six-month operation period, the system generated 414,000 units of electricity while helping to reduce the emission of 345 tonnes of carbon dioxide – the equivalent of planting 15,000 trees.

Additionally, the environmental impact assessment of our proposed offshore wind farm project of approximately 100MW was approved in May and an environmental permit was granted to us in June 2010. Our next step will be to set up an in-situ wind monitoring station to collect necessary meteorological and oceanographic data for use in a detailed design of the wind farm, scheduled to commence in the latter half of 2011.

In response to the Government's consultation paper on Hong Kong's Climate Change Strategy and Action Agenda for public comment in September 2010, we have affirmed that the target of a clean and low-carbon fuel mix of about 3-4% of Hong Kong's electricity coming from renewable energy sources, 40% from natural gas, not more than 10% from coal, and the remaining 50% from nuclear power can be a viable strategy to achieve carbon intensity reduction targets by 2020, provided there is a stable and proven regulatory framework similar to the existing one, a reasonable lead time is allowed for planning and constructing the necessary infrastructure, and government policy supports are available.

The total unit sales of electricity in 2010 were at the same level as in 2009 with our customer base growing slightly to 566,000 resulting from an increase in the domestic and commercial sectors, partially offset by the continued decline in the industrial sector.

In 2010, our customers once again enjoyed a world-class supply reliability rating of over 99.999%, a record we have maintained since 1997. We are continuing to improve our supply reliability with the introduction of advanced cable diagnostic systems for early detection of any weak components in cables and joints.

To meet the expansion needs of our system, we commissioned sixteen 22kV and forty-two 11kV distribution substations, which make up a total of 3,710 substations in our system, and installed 116km of distribution cable in 2010. To serve future needs and enhance reliability, we will expand the 275kV transmission system to phase out the 132kV overhead lines. New transformers will be installed from 2013 to 2016 to support the Mass Transit Railway West Island Line and South Island Line.

Operations outside Hong Kong

The Group reported impressive results from operations outside Hong Kong, despite the slow economic recovery globally.

We took a landmark step in 2010 with the acquisition of a 40% interest in UKPN, the largest electricity distributor in the United Kingdom. UKPN connects approximately eight million customers who depend on our power supply. We are excited about the future earnings contribution potential this 40% shareholding will provide to the Group.

The underlying financial performance of the UKPN business in the two months since its acquisition in late October 2010 has been above expectations. Total revenues for the last two months of 2010 were higher than in the corresponding period in 2009.

We also acquired a 25% stake in SPL in June 2010. The electricity-generating company is located near Bristol in the United Kingdom and operates two gas-fired combined-cycle gas turbine generating units with an aggregate capacity of 1,140MW. SPL has achieved excellent availability from these operations.

Northern Gas Networks' (NGN) total revenue for 2010 was marginally lower than in 2009. It was however able to maintain earnings before interest, taxation, depreciation and amortisation in line with that for 2009. NGN has been ranked the best performing and most efficient network for the past two years by the regulator, Office of Gas and Electricity Markets.

In Australia, ETSA's distribution and asset-related revenues saw strong growth that resulted in higher earnings. In an effort to meet the increase in network capacity requirements and transmission code obligations, capital expenditure was increased by more than 50% over the previous year.

CitiPower and Powercor delivered impressive double-digit earnings growth in 2010. Capital expenditure also rose in the past year, the 30% increase was driven by greater network augmentation activities associated with higher customer demand and the advanced metering infrastructure programme.

In mainland China, the Dali and Laoting Wind Farms had their first full year of operation in 2010 and sent out 38% more electricity than in 2009. Being qualified for the Clean Development Mechanism (CDM) under the Kyoto Protocol, they secured successful registration of CDM credits.

The Jinwan Power Plant saw double-digit growth in units sold in 2010 while the output of the Zhuhai Power Plant and Siping Cogeneration Plant were slightly lower than 2009. The FGD plants for Zhuhai Power Plant Units 1 and 2 have been operating smoothly. At the neighbouring Jinwan Power Plant, the rate of sulphur dioxide removal efficiency exceeds 90%, fulfilling the current requirement for flue gas emissions. At the Siping Cogeneration Plant, besides the smooth operation of the existing No. 3 boiler FGD plant, another two FGD plants serving the No. 1 and No. 2 boilers were installed.

In New Zealand, Wellington Electricity recorded customer growth. Volume of electricity distributed was slightly lower than in 2009 due to the warmer weather in 2010.

In Canada, Stanley Power holds a 49.99% interest in TransAlta Cogeneration LP, which has stakes in six generating plants across Canada. In February 2011 Stanley Power announced the proposed increase in its interest in one of the generating plants, the 220MW Meridian co-generation plant in Saskatchewan from 24.99% to 100%, the increase in interest is expected to be completed in April 2011.

In Thailand, the Ratchaburi Power Plant recorded a successful year of operation. The company's two combined cycle gas turbine blocks achieved full contract availability hours under the Power Purchase Agreement with the Electricity Generating Authority of Thailand.

Outlook

At HK Electric, we support Hong Kong Government's initiatives to combat climate change and are conscious of the need to reduce greenhouse gas emissions. Our focus going forward in respect of air quality standards and carbon levels will involve us in working with the Government on the future fuel mix for the Lamma Power Station. Higher fuel prices are expected to continue to apply pressure on fuel costs in 2011.

Outside Hong Kong, we will continue to pursue further growth for our shareholders by actively seeking out investment opportunities in power and utility-related businesses. After a decade of global expansion guided by determination and prudence, we have now established a solid base from our operations outside Hong Kong. We will build upon this foundation in the coming years with earnings from operations outside Hong Kong expected to continue to provide an increasing proportion of our overall Group earnings.

I would like to thank the board of directors and all the Group's employees for their hard work and dedication that has contributed to our success in the past year.

Fok Kin Ning, Canning
Chairman
Hong Kong, 2 March 2011